



Tagging Info

Fitch Affirms Italian Autonomous Province of Trento at 'AAA'; Outlook Stable

Ratings

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Fitch Ratings-Milan/London-29 July 2010: Fitch Ratings has today affirmed the Italian Autonomous Province of Trento's (Trento) Long-term foreign and local currency ratings at 'AAA' and Short-term foreign currency rating at 'F1+'. The Outlooks on the Long-term ratings are Stable.

The affirmation of Trento's ratings reflects its special autonomy status and wealthy local economy which have contributed to a resilient financial performance during the economic downturn, which saw Trento's GDP contract by about 3.5% in 2009.

An unexpected fall in tax receipts or a decline in operating performance due to a lack of spending restraints following the revised mix of revenue-spending responsibilities amid a steeper-than-anticipated rise in Trento's overall financial liabilities, could lead to a rating downgrade. As the province's rating is three notches above Italy's sovereign rating ('AA-/Stable) - the maximum allowed under Fitch's criteria - a negative rating action on Italy would also affect the province's rating.

Trento's special autonomous status allows it to retain 90% of major national taxes alongside a more diversified spending structure relative to Italy's ordinary regions. Under the framework of fiscal federalism, which should imply a stronger link between all regions' revenue and local economic performance, Trento negotiated with the state to take on EUR100m of new responsibilities for funding a university, neighbouring areas and job-protection schemes. These responsibilities will be funded by additional revenue from the extension of its right to 90% of proceeds generated in its territory to other national taxes like excise duty and lottery taxes. Nevertheless, Trento's contribution to reduce the national deficit is likely to weigh negatively on its future operating balance.

Fitch therefore expects the latter to eventually decline below EUR1.3bn from 2010, and to below 30% of operating revenue compared with an average of 33% in 2006-2009, also due to the economic downturn. A mix of service-oriented SME's, the ongoing recovery of the construction sector and resilient tourism inflows should keep unemployment below 4% in 2010-2011. Fitch expects the current balance to stabilize at about EUR1.2bn, as the grip on operating expenditure, including healthcare which absorbs about 40% of the latter, should allow Trento to maintain a revenue/spending match. This is also likely to be supported by expected GDP growth of 1% which should help tax proceeds to rebound.

Budgetary flexibility remains significant, with about EUR200m of tax-raising leeway being unfrozen within the context of the upcoming fiscal federalism and the ability to postpone investment projects, which are so far fully tax-funded. However, Fitch expects Trento's capital spending over the medium term to continue to account for about EUR1.4bn per annum, or about one-third of total expenditure. Substantial free reserves of EUR600m could absorb potential tax shortfalls, such as those that could derive from recent rulings on the business tax paid by small businesses, or possible tax cuts eventually decided at the national level.

Trento maintains a borrowing-free policy. However, its financial arm Cassa del Trentino (CDT, rated 'AAA'/Stable) had outstanding debt of about EUR600m in 2008-2009 which could rise to EUR1bn in the medium term as it continues to finance municipalities and other provincial public sector entities. Other off-balance-sheet liabilities, which include EUR700m of subsidized debt of its cities and companies, EUR240m guarantees and EUR90m of bonds issued by provincial entities but directly served by the Province, are expected by Fitch to remain below EUR1.5bn by 2012. Overall debt liabilities could therefore account for up to about 50% of tax revenues and about two years of the province's current balance, a level that still compares well with its 'AAA'-rated peers.

Located in the wealthy north-east of Italy, Trento is a small province with about 525,000 inhabitants, and GDP per capita 20% above the EU27 average.

Applicable criteria, "Tax-Supported Rating Criteria," dated 21 December 2009, "International Local and Regional Governments Rating Criteria", dated 17 March 2010, and "Rating Subnationals Above the Sovereign in the Euro Area", dated 25 June 2009, are available on www.fitchratings.com.

A full rating report on the Autonomous Province of Trento will soon be available on www.fitchratings.com.

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Related Research:

Tax-Supported Rating Criteria

International Local and Regional Governments Rating Criteria - Outside the United States

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